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UNIDO Forum on Sustainable Industrial Development

29 November–1 December 1999

INDUSTRY FOR GROWTH INTO THE NEW MILLENIUM: CONTRIBUTIONS TO POVERTY ERADICATION AND THE PROMOTION OF EQUITY

Learning from past decades to prepare for the future

Note by the Director-General

1. Twenty-five years ago the international community met in Peru to adopt the ambitious and wide-ranging Lima Declaration as the cornerstone of the proposed new specialized agency of the United Nations—the United Nations Industrial Development Organization. Far-reaching changes in many areas have occurred since. The eighth session of the General Conference, the final meeting of UNIDO's Member States before the new millennium, is an opportunity to assess the achievements.

2. This introductory note, together with other informal material, explains the background and some of the issues.

Then and now

3. At the time of the Lima Conference, industry's contribution to economic development was understood without difficulty. Industrialization was synonymous with prosperity. The international community perceived it as a necessary vehicle that permitted less advanced countries to accede to higher states of development.

4. Through expansion and diversification of productive activities and with the benefit of new technologies it would be possible to lower unemployment and reduce poverty. Per capita incomes would improve. Labour forces would gain improved skills. At best, increased prosperity would bring convergence. The gap separating the less developed from the richest countries would be narrowed. This was the underlying goal and the *raison d'être* for supporting industrialization.

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5. Nevertheless, because it was already evident that industrial production in developing countries did not increase automatically, it also made sense to create a fully independent international organization that could help provide the "public goods" necessary to support the process.

6. But those were other times and another international context.

7. The concerns were also different. The United Nations system was expanding. And through its ability to play a relevant role in the articulation of international relations in the then bipolar world, it enjoyed far more prestige than today.

8. It was therefore through the United Nations that the international community sought the laudable objective of industrialization for all countries, and adopted the Lima series of targets as a consequence. The best example referred to the developing countries' participation in world industrial output. Their share would rise from around 11 per cent (not counting data for China) in 1975 to 25 per cent in 2000.

9. In addition, special care would be taken to neutralize the potentially prejudicial effects that multinational firms and finance capital could have had on this process.

10. Today, 25 years later, and to a large degree thanks precisely to the possibilities opened by trade expansion, the internationalization of capital markets and the growth of foreign investment, this quantitative target has been reached. The share of developing countries (including both emerging and newly industrialized economies) and China (estimated at 6 per cent) in world industrial production has risen to 24 per cent.

11. The underlying element that made it possible for the developing world to become incorporated into the world factory was technological change. The combined impact of the information revolution on the technologies of production and design and the reduction in the costs of transportation and communication brought about dramatic change both in the implementation and organization of productive processes and the rise of vigorous service sectors.

Achievements and shortfalls

12. Despite this success, it is pertinent to ask how these achievements are to be understood in light of the measures adopted 25 years ago.

13. In the first place, we can acknowledge the achievement in creating jobs. The increase in developing countries' share of world manufacturing value added (MVA) generated more employment and prosperity in those regions that took part in the process of "internationalization" of industrial production. In addition, far from being an obstacle to the industrialization of developing countries, it was precisely through technological improvements that the activities of finance capital and multinational companies expanded and that liberalization of trade contributed to this increased participation.

14. This shows that ideological prejudices (in this case expressed by both sides —by developing countries and economies in transition as well as financiers and multinational corporations) can easily be rendered obsolete by technological change. Politics and ideology are present in all of life's activities. But one message of the past 25 years is that progress in the search for concrete solutions to issues related to development has to be sought in careful analysis of technical aspects (e.g. policies to support small and medium industrial enterprises or the introduction of international environmental standards) rather than in political and ideological debate.

15. Secondly, we can recognize that, despite the increase in the relative share in MVA by developing countries and economies in transition, improvements in the living standards of the population in developing countries has been very unequal. The phenomenon of "internationalization" of industry shows distinct tendencies to

"agglomerate" in certain regions. As a result, while the share of world MVA for developing countries as a whole has increased, the share of Africa is lagging behind.

16. In addition, industry agglomerated in certain regions within the boundaries of developing countries. In other words, the industrialization of recent years has not contributed to raised living standards in a balanced way "among" or "within" countries—a phenomenon that can also be observed among the most advanced nations.

17. Thirdly, quantitative targets can say a lot or little at the same time. Without doubt, they can be useful for giving an idea of the magnitude or of the size of the challenges. But, at the same time (at least when we analyse something as complex as economic development or the contribution of a specific sector, such as industry), reaching a specific quantitative target is no guarantee of success in terms of the real objectives, such as improving income distribution or improving living standards. Nevertheless, balanced development remains an inescapable goal if we want to foster change and social progress within democratic, participatory and pluralist environments.

18. A fourth conclusion, based on the above, is that it is important to foster activities and attitudes that allow countries to make gains in overall social and economic productivity—rather than indiscriminate support for a specific sector, such as agriculture or industry. Productivity gains are the most sustainable path to balanced improvement in living standards. They are also, it seems self-evident, the best mechanism for identifying the effective contribution of a specific sector to economic development.

19. Fifthly, it is necessary to recognize a new factor that has risen to prominence in recent years and which conditions the activities of industrial promotion: the requirement to protect and preserve the environment. The environmental factor has emerged as a critical aspect of economic development and has to be taken fully into account in the formulation of policies, strategies and actions.

20. Finally, we have to acknowledge two additional influences on industrial development: the crucial role of macroeconomic stability and the driving role of the private sector. Structural adjustment and other macroeconomic measures are an essential basis for development, albeit an incomplete recipe. They must, we now believe, be accompanied by appropriate microeconomic policies—and policies that promote industry have to be prominent among them. At the same time, such policies will be very different to those of 25 years ago. They will recognize that the risk-taking private sector increasingly dominates ownership and new investment in industry, and that the corresponding government role is that of "enabler" rather than investor and controller.

Industrial development and the United Nations

21. To complete these reflections (necessarily only a preliminary interpretation of the messages and experiences of the last quarter century) it is fitting to analyse the changes in the quality of the two main social and economic instruments the international community chose in order to hasten industrialization in developing countries: (a) promotion of comprehensive industrial development (as distinct from, say, provision of only the capital required for manufacturing investment); and (b) implementation through interventions by the United Nations. Neither, unfortunately, enjoys its reputation of 25 years ago.

22. Without doubt, industrial activity had a better image at the time of the Lima Conference than it does today. Industry's dynamic role in the process of economic development was not questioned, industrial pollution was not perceived (in part misconceived) to be a problem on a global scale that affected the viability of the model of production over the long term. And while the most advanced economies began their process of de-industrialization to become service economies at the beginning of the 1970s, the phenomenon was not fully understood until much later. (Indeed, it was not clear in aggregate statistical data until 1991, when the first country (United Kingdom) verified service exports as exceeding product exports.)

23. But is it right to speak of de-industrialization? Today it is broadly accepted that industry's role as the engine of development is being replaced by a complex of industry and services, and that the latter is beginning to dominate the generation of employment. Nonetheless, it would be lamentable to lose sight of two factors.

24. First, we should remember that it was the investments in research and development undertaken in the industrial sector (which is responsible for 90 per cent of total private spending on research and development) that generated the new technologies that allowed the rise of service economies. For that reason alone there is a high correlation between one activity and the other. Above all (and based on the previous analysis), it has to be recognized that—at least up to now—it is far more difficult to verify and measure productivity increases in services than in industry.

25. Secondly, what is valid for the most advanced economies does not necessarily apply for developing economies or for economies in transition. It is true that the contribution of industry to employment has been less in the most advanced economies (and also in developing countries that have reached a certain level of industrialization, as well as in some economies in transition). Nevertheless, the role of industry as a generator of employment and as a contributor to economic development continues to be of extraordinary relevance among the poorest countries and will continue to be so in the coming decades.

26. Regarding the reputation of the United Nations, no matter whether it is regarded as a body for discussion (i.e. a general forum) or as an implementation agency, it has to be acknowledged that the ending of the cold war saw significantly diminished interest in the system on the part of those who won the contest. This has brought into question its relevance, constrained the margin of its operations and, as a result, the effectiveness of its actions.

27. However, perhaps it would be a mistake to presume that the end of bipolarity has given rise to a unipolar world, or that a unipolar world with only one super power can be a form of organization for international politics that will last for a long time. The evidence of the last ten years in terms of solutions to international conflicts suggests otherwise.

28. Ultimately, it is difficult to imagine the construction of a global society—the development of a globalized world—without global institutions. This is not to propose a global government but rather the existence of institutions with global reach that contribute to the effective and balanced integration of nations. Certainly, what type of institutions the world needs remains to be discussed: whether one type or another would be best, or if it would be better to reform the ones we now have. But it is clear that some global institutions are necessary to manage globalization.

29. Thus, while not as popular or powerful as it was 25 years ago, both industrial development and the United Nations continue to be valid and relevant working instruments for improving the vast majority of the people's standards of living. Without doubt, re-interpretations and reforms are needed. But, definitively, both instruments can make a significant contribution to the solution of contemporary problems.

The way ahead

30. The question now is: How can we take advantage of this experience to design the work agenda for the coming years? If anything is clear from the previous analysis, it is that there have been many, deep changes. It would not make sense to continue with "business as usual". Where are the common problems of the developing world and the most advanced industrialized countries? What can be done to articulate the interests of the various actors with the objective of reaching concrete results from the perspective of industrial development? What are the "public goods" that the international community ought to provide and how can UNIDO contribute to this process?

31. In the last 20 months the Secretariat has implemented, with great effort, the reforms approved by the seventh session of the General Conference in December 1997. This has generated a true transformation of UNIDO programmes and work methodology and, at the same time, improved its administration and finances. These efforts have been recognized by the Industrial Development Board and Programme and Budget Committee, where Member States have worked with enormous dedication and harmony.

32. This is an excellent point of departure for continuing the dialogue and constructive debate. It should continue in the framework of the implementation of the Business Plan, but should focus and specialize UNIDO's work still more and convert it into an even more relevant organization in the coming years. The Forum on Sustainable Industrial Development will contribute by providing an appropriate place to respond to the questions posed above — with more interaction and a more dynamic participation on the part of all who are present.

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Learning from past decades to prepare for the future

Monday, 29 November

3–6 p.m.	Panel 1	The new geography of industry—insights from economic analysis

Tuesday, 30 November

10 a.m.–1 p.m.	Panel 2	Globalization of production systems and implications for developing countries and economies in transition—the upgrading of local competitiveness
3–6 p.m.	Panel 3	Industrialization facing environmental challenges—specific contributions to solving large problems

Wednesday, 1 December

9 a.m.–12 noon	Panel 4	The UNIDO partnership programme—a new approach to promoting small and medium enterprises
12 noon–1 p.m.	Panel 5	Integration, agglomeration and interaction in world industry—drawing some lessons